TRENDS IN LENDING

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(March 2022)

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The objective of the publication 'Trends in Lending' is to present a comprehensive picture of the latest trends in lending and to facilitate the correct interpretation of these developments. To this end, it elaborates on developments in credit aggregates, the demand for loans perceived by banks and credit conditions. Within credit conditions, a distinction is made between price and non-price conditions. Non-price conditions influence changes in the clientele considered creditworthy by banks and the conditions on access to credit. Price conditions, in turn, show the price of borrowing for creditworthy customers.

In particular, the key statistics examined in the analysis are the following:

- *The credit aggregates present quantitative developments in economic agents' loans outstanding based on the balance sheet statistics of the banking sector. Both the volume of new loans and net changes in the banking sector's outstanding loans (net of exchange rate effects) are presented. From 2013 Q4 on, the analysis presents the trends in lending in the overall credit institutions sector (banking system and foreign branches, cooperative credit institutions).*

- *Changes in non-price credit conditions are presented in a qualitative manner based on the Lending Survey, in which the banks that are active in the given segment and jointly cover 80-90 per cent of the credit market indicate the direction of change compared to the reference period. The Lending Survey includes price conditions in a qualitative manner as well, in the form of the spread over the funding costs, the premium on risky loans and the fees charged.*

- *The interest rate statistics contain the price conditions, i.e. aggregate interest rates on credit institutions' new loans realised, weighted by the contract amounts. The lending rate can be decomposed into the reference rate and the spread over the reference rate.*

- *Banks active in the given segment provide qualitative responses in the Lending Survey in respect of their expectations and the changes in credit demand they perceive. Similar to credit conditions, banks indicate the direction of the change.*

Detailed information on the methodology of the indicators describing the developments in lending is given in the Annex at the end of the analysis. Within the publication, the findings of the Lending Survey are presented in a condensed form, but the responses to the questions and the set of charts based on the findings are published in full on the Lending Survey page of the MNB's website.

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1. EXECUTIVE SUMMARY

In the fourth quarter of 2021, non-financial corporations' loans outstanding from banks grew by HUF 397 billion, resulting in annual growth of 10.7 per cent for 2021 as a whole. The loan portfolio of the SME sector continued to expand significantly, exhibiting year-on-year growth of 16.8 per cent. Expansion of the portfolio was strongly supported by the rising share of market-based loans. Considering the corporate bonds subscribed or purchased by banks as well, credit institutions' loans and bonds outstanding to non-financial corporations grew by HUF 740 billion in total in the fourth quarter, as a result of which the annual growth rate of the portfolio, also including bonds, amounted to 18.4 per cent at the end of the year. In the fourth quarter, total new disbursements of corporate and SME loans were of similar magnitude as in the same period of 2020, which was affected by subsidised programmes, but exceeded the values registered in 2019 by 51 and 32 per cent, respectively. The ratio of market-based loans in new contracts rose to 78 per cent, approaching the level observed before the pandemic.

With the depletion of the FGS Go! programme allocation, the rise in the interest rate environment and the return of market-based loans to nearly pre-pandemic level, SME forint lending rates rose during the quarter under review, but to a lesser degree than the 3-month interbank rate. Based on the responses of the banks participating in the Lending Survey, corporate credit conditions did not change significantly in the fourth quarter of 2021, while demand for small and micro enterprise loans and short-term loans picked up. Looking ahead, banks plan to ease credit conditions for small and micro enterprises in the first half of 2022, which is expected to be accompanied by a further increase in demand for forint loans and longer-term loans. According to the Bank Sentiment Survey, 70 per cent of the respondent institutions plan to increase their SME loan portfolio in the first two quarters of 2022.

The credit institution sector's household loans outstanding rose by HUF 204 billion due to transactions in the fourth quarter of 2021, thereby reaching an annual growth rate of 15 per cent. The growth in loans outstanding was attributable to the dynamic increase in housing loans and the high ratio of prenatal baby support loans, with the latter already accounting for 17 per cent of household loans outstanding in December. The volume of household loans disbursed amounted to HUF 647 billion during the quarter under review and thus returned to its pre-pandemic level, but the structure of new lending changed significantly: the ratio of mortgage loans increased, while the ratio of unsecured consumer loans declined within new contracts. The ratio of loans taken for the purchase and construction of new homes rose to 27 per cent of all housing loans, due to the FGS Green Home Programme (GHP) launched in October. In parallel with the increase in the volume of housing loans, the number of contracts concluded as well as the average loan amount and maturity also continued to rise year-on-year. The surge in housing loans was driven by the continued rise in house prices, the expansion of home subsidies and demand brought forward as a result of the interest rate hike. The volume of the Home Purchase Subsidy Scheme for Families increased year-on-year for purchases of both used and new homes, with the rural HPS still accounting for the largest volume.

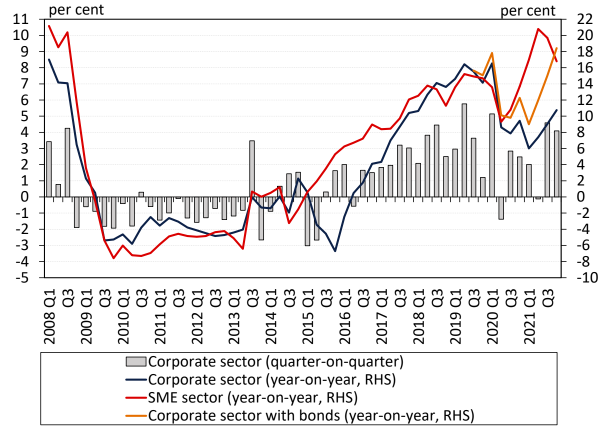
The average APR-based spread on new housing loan contracts fell to a historic low in the fourth quarter, as long yields, which rose in parallel with the change in the interest environment, have not fully passed through to lending rates. However, banks noted that repricing may accelerate in the first half of 2022. The average interest rate on personal loans has not increased significantly since the start of the interest rate hike cycle, which may have been partly due to the competition-stimulating role of the Certified Consumer-friendly Personal Loans. Based on the responses to the Lending Survey, banks reported a pick-up in demand for housing loans in the fourth quarter of 2021, even under unchanged credit conditions, and one quarter of the institutions expects continued growth in demand both for housing and consumer loans in the first half of 2022. According to the Bank Sentiment Survey, the banking sector perceived further intensification of competition in the retail segment, and around 40 per cent of the respondent institutions would like to increase their exposure both in the consumer and mortgage loan markets in the first half of 2022.

2. TRENDS IN LENDING IN THE CORPORATE SEGMENT

In the fourth quarter of 2021, non-financial corporations' loans outstanding expanded by HUF 397 billion, reflecting growth of HUF 338 billion and HUF 59 billion in forint loans and foreign currency loans, respectively. In 2021, the outstanding loan portfolio of non-financial corporations grew by 10.7 per cent, or HUF 1,000 billion in total. Taking into consideration the corporate bonds subscribed and purchased by banks as well, credit institutions' loans and bonds outstanding to non-financial corporations grew by 18.4 per cent during the same period. The loan portfolio of the SME sector expanded significantly: annual growth of 16.8 per cent was registered. In the quarter after the closure of FGS Go!, total disbursements of corporate and SME loans developed similarly as in the previous quarter, and exceeded the quarterly data registered two years ago – before the pandemic – by 51 and 32 per cent, respectively. Within the period under review, the ratio of market-based loans increased both in total corporate and SME loans, accounting for 78 per cent and 71 per cent, respectively.

In parallel with the depletion of the allocation of FGS Go!, the tightening interest rate environment and the return of the market-based loans to nearly pre-pandemic levels, the weighted average interest rate on SME investment loans in forints increased by 1.2 percentage points in quarter-on-quarter terms. According to the responses of the banks participating in the Lending Survey, there were no significant changes in corporate lending conditions in the fourth quarter of 2021, while looking ahead to the first half of 2022 some easing may take place in the maximum loan amount for small and micro enterprises. Banks observed a pick-up in demand for small and micro enterprise loans and short-term loans in the fourth quarter of 2021 and expect a further increase in demand for forint loans and long-term loans in the first half of 2022.

Chart 1: Growth rate of loans outstanding of the overall corporate sector and the SME sector

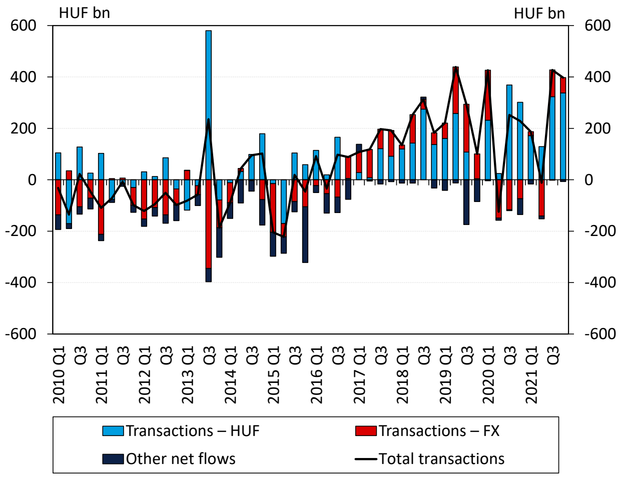


Note: Transaction-based, prior to 2015 Q4 data for SMEs are estimated based on banking system data. The bond stock includes corporate bonds stated in banks' balance sheets. Source: MNB

Corporate lending in Hungary

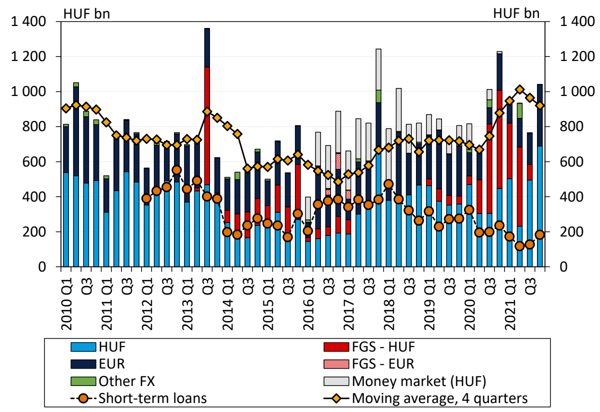
Loans outstanding continued to expand even after the phase-out of the general moratorium and depletion of the allocation of FGS Go!. In 2021, banks' outstanding lending to non-financial corporations increased by HUF 1,000 billion, reaching an annual growth rate of 10.7 per cent (Chart 1). In terms of growth in outstanding lending in 2021, 80 per cent occurred in the second half of the year: following the depletion of the allocation of FGS Go! and the extension of the moratorium with a narrower scope, the growth rate in the fourth quarter was similar to that observed in the previous quarter. Growth in forint loans accounted for almost all of the annual increase, while outstanding foreign currency loans stagnated year-on-year. Growth in outstanding lending was concentrated primarily in the SME segment, where loans outstanding expanded by 16.8 per cent in 2021. Also taking into consideration the transactions of corporate bonds subscribed by banks, credit institutions' loans and bonds outstanding to non-financial corporations grew by 18.4 per cent in total during the same period. Increased interest preceding

Chart 2: Net quarterly changes in the corporate loan portfolio by currency



Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment, excluding individual institutional effects. Adjusted for the impact of the change in some banks' accounting standards at the beginning of 2017. Source: MNB

Chart 3: New corporate loans in the credit institutions sector



Source: MNB

the exhaustion of the global amount of the Bond Funding for Growth scheme contributed in large part to the outstanding growth rates.

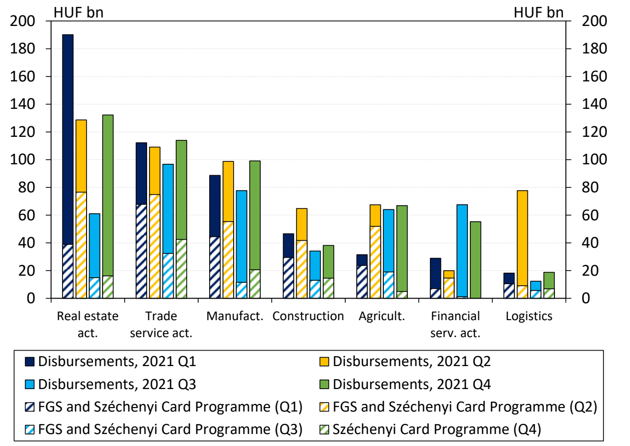
The quarterly growth in corporate loans outstanding was primarily attributable to long-term forint loans. As a combined result of a HUF 59 billion increase in foreign currency loan transactions and a rise of HUF 338 billion in forint loans, corporate loans outstanding grew by HUF 397 billion in the fourth quarter of 2021 (Chart 2). The moratorium on payments no longer provided substantive support for growth during the quarter: while 21 per cent of total corporate loan portfolio was still participating in the programme in June, only 2 per cent of the stock took advantage of the moratorium, which was extended with a narrower scope from November. The quarterly growth contribution of FGS Go! also dropped significantly: in the fourth quarter, it accounted for less than 5 per cent of the expansion in loans outstanding realised as a combined result of disbursements and repayments. During the period under review, the largest increase was registered in longer-term forint loans outstanding, while loans with shorter maturity accounted for one quarter of the portfolio growth. In the fourth quarter, loans outstanding grew to the largest degree in the trade and motor vehicle service sectors and in financial and insurance activities[1], while a slight decline was only observed in construction.

The volume of market-based lending contracts once again returned close to the pre-pandemic levels. The new lending of HUF 1,041 billion in the fourth quarter of 2021 slightly exceeded the amounts observed in previous quarters and was 51 per cent higher than two years earlier, but fell 14 per cent short of the same prior-year period, which was already affected by the coronavirus and the subsidised programmes (Chart 3). The share of high-amount transactions (over HUF 5 billion) can still be deemed considerable (38 per cent). Market-based[2] lending accounted for 78 per cent of the total loans disbursed in the review period, falling slightly short of the level of 85 per cent registered in

[1] Within the sector of non-financial corporations, the financial and insurance sector mostly comprises holding companies.

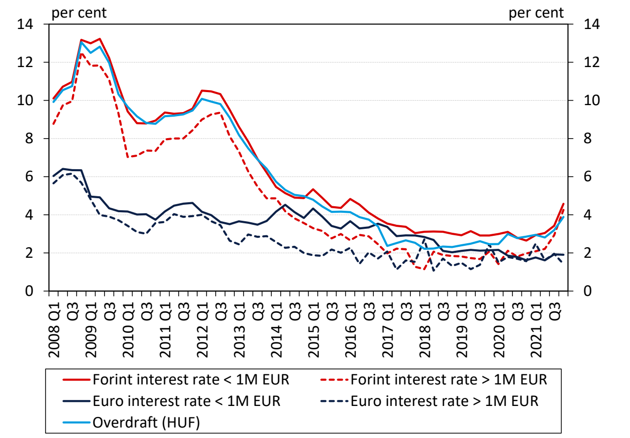
[2] In calculating the ratio of market-based loans, we examined the ratio of non-overdraft type loans classified as 'Normal market' in the bank data supplies within the new contracts of credit institutions, excluding the Hungarian Development Bank and Eximbank.

Chart 4: New SME loan disbursements in the larger sectors



Note: Examining data of the seven sectors with the largest SME loan portfolios. Under FGS Go!, new contracts could be signed until the end of September 2021. Within the Széchenyi Card Programme taking into account loans except from overdrafts. Source: MNB

Chart 5: Interest rates on new corporate loans



Note: Loans with variable interest rate or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB

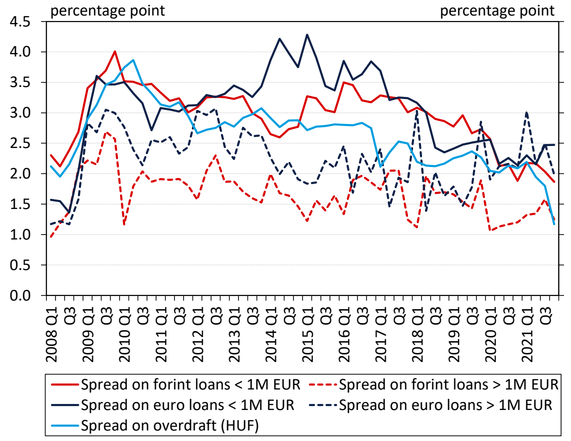
the quarter before the outbreak of the coronavirus, but substantially exceeding the ratio of 45 per cent registered a year earlier.

The share of market-based loans also increased in case of SME loans. Whereas the average monthly volume of new SCP contracts without overdrafts[3] ranged between HUF 25-30 billion in the first half of 2021, in the third quarter the new volume amounted to HUF 21 billion on average per month. However, in the last quarter of 2021, the average monthly value of new contracts rose to nearly HUF 50 billion, due to increased interest before the phase-out originally planned for the end of December 2021. In a breakdown by scheme, in the fourth quarter market-based loans accounted for the largest ratio of new SME volume, at 71 per cent, despite the rise in SCP Go!, which was significantly higher than the 32-per cent ratio a year earlier.

The amount of new SME contracts exceeded the pre-pandemic level of two years earlier. In the fourth quarter, new loan contracts in the SME segment amounted to nearly HUF 640 billion, falling short of the same period of 2020, which was affected by subsidised programmes, by 14 per cent, but exceeding the last quarter of 2019 by 32 per cent. However, it is difficult to compare the volume of new contracts from year to year due to the composition effect, i.e. the markedly different characteristics of the loans contracted in the individual periods (e.g. average maturity) (see Box 1 for details). The volume of SME loans disbursed in the largest sectors was similar to previous quarters, but the composition of those by schemes differs substantially (Chart 4). While in the first half of 2021, the share of FGS Go! and the Széchenyi Card Programme (SCP) was around 55 per cent on average, in the second half of the year their ratio typically declined to around 22 per cent, with heterogeneity of the key sectors. The ratio of subsidised loans increased in only one sector over the same period: in the transportation and warehousing segment, it rose from one third to 40 per cent by the end of 2021. The largest decline was registered in the agricultural sector, where the ratio of three-quarters, characterising the first half

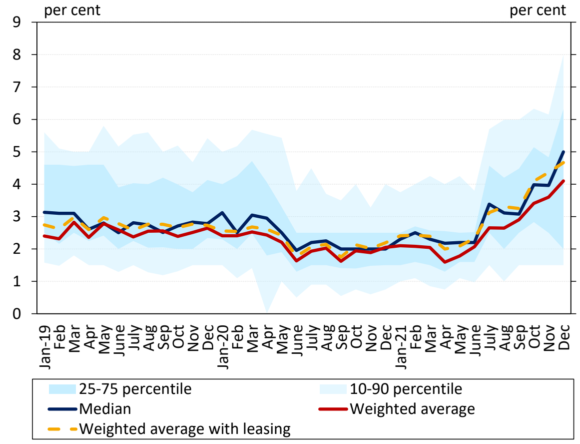
[3] Excluding financial enterprises and sole proprietors.

Chart 6: Interest rate spreads on new corporate loans



Note: Spreads on the 3-month BUBOR and EURIBOR. Loans with variable interest rate or with up to 1-year initial rate fixation. From 2015, based on data net of money market loans exceeding EUR 1 million. Source: MNB

Chart 7: Interest rate distribution and weighted average interest rate of new forint-denominated investment loans in the SME segment



Note: Of the contracts reported as SME loan in the data supply submitted by credit institutions, only loans with a contract amount below HUF 3 billion were taken into account. Data net of Széchenyi Card Programme transactions. Weighted average with leasing: weighted average interest rate of investment loans supplemented by leasing transactions and leasing credit lines. Source: MNB

of 2021, fell to below 20 per cent by the end of December.

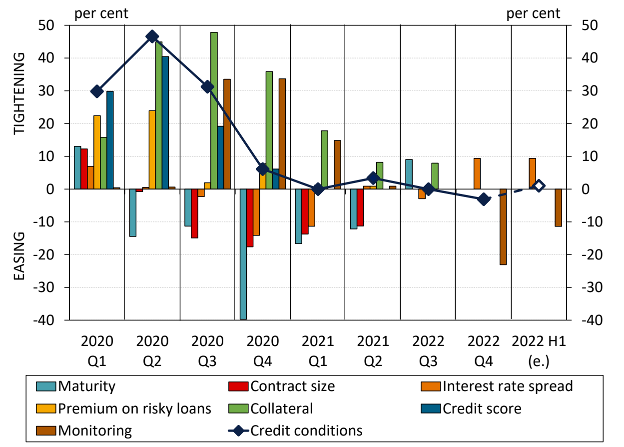
The average interest rate on variable-rate forint corporate loans increased to a lesser degree than the reference rate. The volume-weighted, smoothed interest rate on overdrafts rose by 69 basis points quarter-on-quarter, with the spread declining by 63 basis points (Chart 5). The average interest rate on forint loans below one million euro with variable rates or with 1-year initial rate fixation, excluding money market transactions[4], rose compared to the previous quarter, increasing by 115 basis points to 4.6 per cent, falling short of the increase in the 3-month BUBOR. The interest rate on small-amount euro loans remained broadly unchanged during the quarter, while the average interest rate on euro loans above EUR 1 million with variable interest rate up to one year fell by 54 basis points to 1.42 per cent in the fourth quarter. The average interest rate weighted by the contract amounts on high-amount, variable-rate forint loans advanced 133 basis points quarter-on-quarter, to 4.25 per cent. The increase in the interest rate on forint loans compared to the previous quarter was lower than the rise in the 3-month BUBOR monthly average over the same period, while the 3-month EURIBOR remained broadly unchanged, and thus spreads both on forint and euro loans narrowed (Chart 6). It should be noted that loans linked to short-term interbank rates, where changes in the key interest rate appear the fastest, currently account for a small part of new loans, and thus in relation to the change in funding costs it is also necessary to examine fixed rate loans, many of which also involve state subsidy.

Interest rates on forint SME loans rose in parallel with depletion of the allocation of FGS Go!, the rising interest rate environment and the increase in the ratio of market-based loans. The average interest rate, weighted by the contracted amount, on SME forint working capital loans[5] 149 basis points quarter-on-quarter, to 3.97 per cent in the fourth quarter,

[4] Money market transactions are loans with a value of over EUR 1 million extended to non-financial corporations; their term is short (typically less than 1 month) and they serve to fund some kind of financial operation. It has been possible to exclude money market transactions since 2015, although in the previous period they did not significantly distort the observed average interest rates due to their low weight.

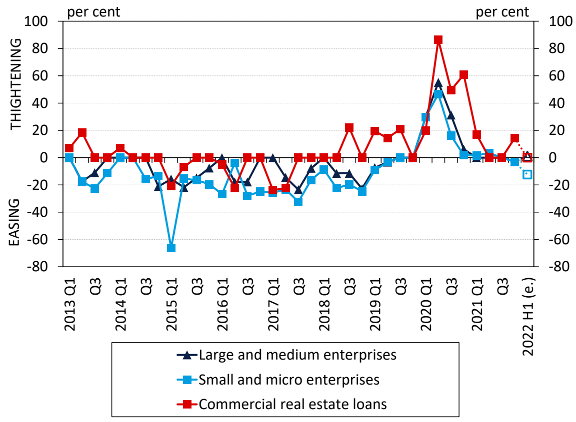
[5] Working capital loans include factoring transactions, factoring credit lines, working capital loans and loans realised for working capital credit line purposes.

Chart 8: Changes in credit conditions in the corporate segment



Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

Chart 9: Changes in credit conditions in the corporate sub-segments



Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

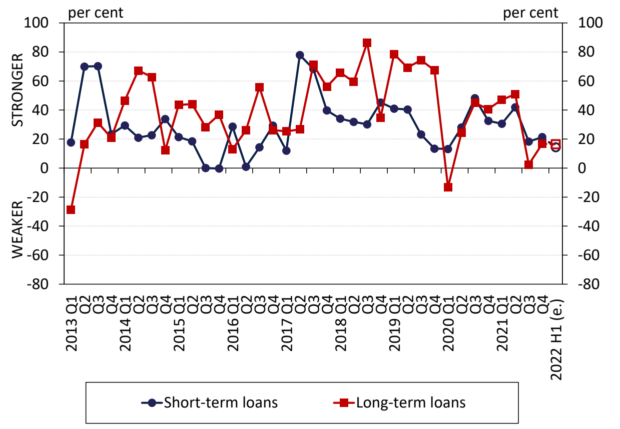
while the interest rate on investment loans[6] reached 4.10 per cent in the same period, after a rise of 120 basis points (Chart 7). In the analysis of interest rates, loans granted under the Széchenyi Card scheme were excluded, as the total transaction interest rate underlying banks' data supply, including state subsidy, is higher than the interest rate actually payable by the customer. The rising interest rate environment, closure of FGS Go! and the return of the ratio of market-based loans to nearly pre-pandemic levels also contributed to the rise in interest rates.

In the fourth quarter, the terms of lending did not change substantially in the corporate segment. Respondent credit institutions in the Lending Survey reported steady credit conditions in all enterprise size categories in the fourth quarter. One fifth of banks eased conditions related to monitoring and to customer reporting obligations, while 10 per cent tightened their spreads (Chart 8). Banks expect a similar trend in the first and second quarters of 2022: 10 per cent anticipate further tightening in spreads, while 10 per cent anticipate further easing in requirements related to monitoring and customer reporting obligations. In the quarter under review, 13 per cent and 17 per cent of institutions, in net terms, cited deteriorating liquidity conditions and industry-specific problems, respectively, as factors triggering tightening. For the first half of 2022, one fifth of the respondent banks anticipate industry-specific problems as a factor pointing towards tightening. In net terms, 16 percent of the responding credit institutions tightened conditions on commercial real estate loans due to uncertain prospects about various segments of the commercial real estate market (Chart 9). In net terms, 12 per cent of credit institutions projected easing for small and micro enterprises in the first half of 2022.

During the quarter, banks reported a pick-up in demand for small and micro enterprise and short-term loans. In the fourth quarter of 2021, 12 per cent of respondent institutions, in net terms, experienced a pick-up in demand for corporate loans. In a breakdown

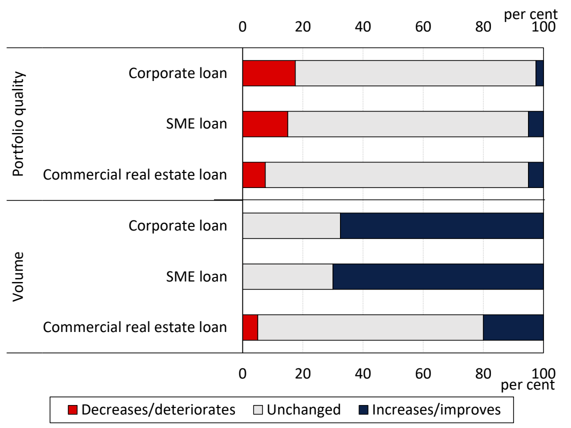
[6] Investment loans include investment loans, credit lines of investment purposes, capital expenditure loans and loans realised for capital expenditure credit line purposes. Loans with a loan purpose that is not identifiable as an investment or working capital loan (e.g. credit line with yet unknown purpose; other loans) were not allocated to any of the categories.

Chart 10: Changes in corporate credit demand by maturity



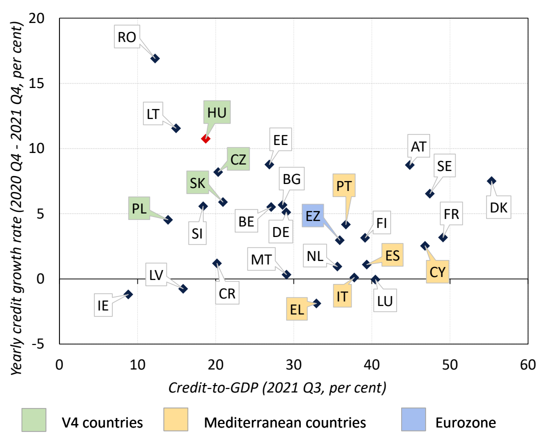
Note: The net ratio of banks indicating stronger and weaker demand, weighted by the market share. Source: MNB, based on banks' responses

Chart 11: Bank' expectations related to changes in the volume of loans and portfolio quality in the corporate segment



Note: Unweighted distribution of credit institutions. Source: MNB, based on banks' responses

Chart 12: Annual growth rate of corporate loans and the credit-to-GDP ratio in an international comparison



Source: ECB, MNB

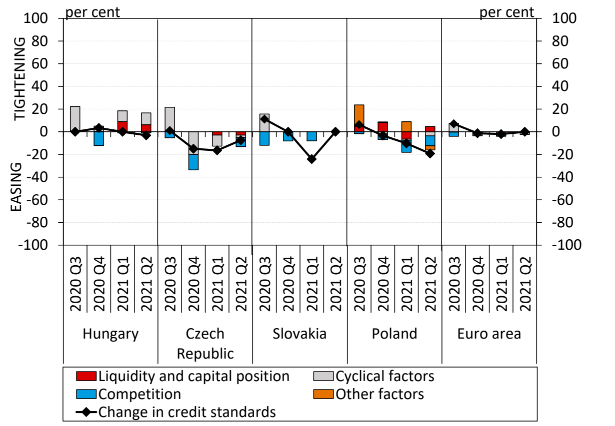
by enterprise size and maturity, a higher ratio of banks reported an increase in demand for small and micro enterprise loans and for short-term loans, respectively (Chart 10). In net terms, 16 per cent of banks expect a further increase in demand both for forint and long-term loans in the first half of 2022.

The majority of banks have set the objective of further growing corporate loans outstanding in the first half of 2022. In the Bank Sentiment Survey, domestic credit institutions also outline their strategic plans, in addition to assessing the business activity situation. In the first half of 2022, 68 per cent of banks plan to increase their total corporate loan portfolio and 70 per cent of them their SME loan portfolio, while the rest of the respondents intend to maintain the current level of loans outstanding (Chart 11). 20 per cent of banks plan to increase their commercial real estate loan portfolio, and only 5 per cent expect a decrease compared to the previous half-year. In the three segments, 8-18 per cent of banks anticipate a deterioration in portfolio quality, which – mainly in the SME and commercial real estate segments – represents more favourable perception compared to the previous half-year.

International developments in corporate lending

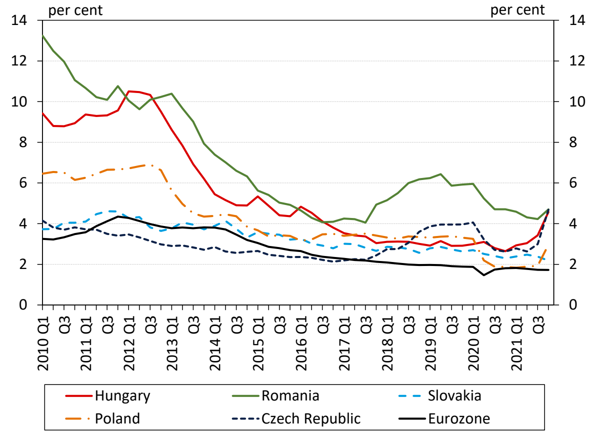
The growth rate of corporate loans in Hungary ranks third highest in an EU comparison. In the last quarter, annual growth in corporate loans outstanding accelerated significantly in each of the Visegrád countries, reaching 8.2 per cent in the Czech Republic, 5.9 per cent in Slovakia and 5.3 per cent in Poland, in December 2021 (Chart 12). In the euro area, annual dynamics accelerated to 3 per cent in parallel with economic reopening, with a high degree of heterogeneity across member countries. According to ECB data, the increase in demand no longer related to loans linked to guarantee schemes introduced in response to the coronavirus, suggesting that the return to market-based lending continued internationally in parallel with economic recovery. Of the largest Member States, growth of 5 per cent, 3 per cent and 1 per cent was achieved in Germany, France and Spain, respectively, while the portfolio size stagnated in Italy. The percentage-based increase in Hungarian banks' outstanding corporate loans in 2021 was the third

Chart 13: Changes and factors contributing to changes in corporate credit conditions in an international comparison



Note: Category values are derived from the arithmetic average of the factors thematically classified therein. Positive values indicate tightening conditions, while negative ones indicate easing. Source: MNB, ECB, national central banks

Chart 14: International comparison of interest rates on small-amount corporate loans extended in domestic currency



Note: Variable-rate loans below EUR 1 million, with maturities of up to 1-year; therefore, FGS loans with the maximum 2.5 percentage point spread are not included. Source: MNB, ECB, national central banks

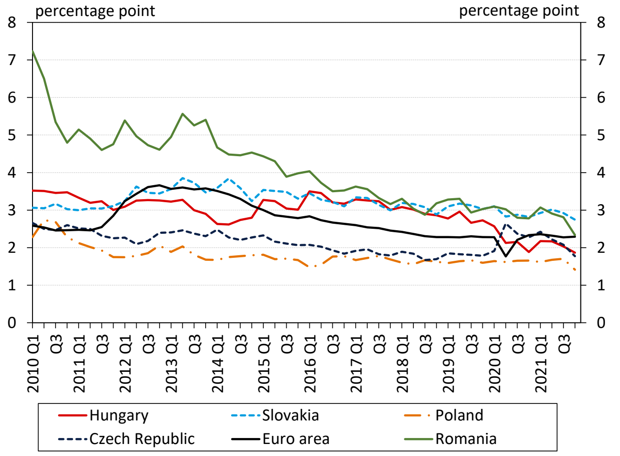
highest in the EU, reflecting the impact of the moratorium in addition to subsidised loan and guarantee schemes. Similarly to the situation in the Visegrád Group, Hungary's corporate lending-to-GDP ratio remains low in an international comparison, and thus there is significant room for prudent deepening of credit penetration.

In many countries in the region, credit conditions were eased to a modest degree. In parallel with the reopening of the economy, in the last half-year the countries of the region were characterised by a moderate easing of credit standards. This was reported to the largest degree by Polish banks, where 10 per cent of the respondents eased credit conditions in the third quarter and 19 per cent in the fourth quarter (Chart 13). By contrast, lending conditions in the euro area have not changed materially, but a pick-up in demand was reported at the highest rate since the first half of 2020. According to the ECB's survey[7], this was partly due to an increase in long-term borrowing requirement, but also to a temporary need for working capital loans due to supply difficulties. As regards the four largest Member States in the euro area, credit conditions were eased in Italy and tightened in Spain, while in France and Germany they did not change materially in the past quarter. According to banks' expectations, in the first quarter of 2022, lending conditions are unlikely to change in the euro area while they projected a pick-up in demand.

Interest rates on corporate loans increased significantly in the region quarter-on-quarter. In the fourth quarter of 2021, the average interest rate on new small-amount corporate loans with up to 1-year initial rate fixation rose quarter-on-quarter in most countries of the region except in the euro area member Slovakia. This rise exceeded 100 basis points in the Czech Republic, Hungary and Poland (Chart 14). Romania registered a more moderate increase of 48 basis points over the quarter, while Slovakia saw a decline of 20 basis points. Significant base rate increases in all countries of the region, except in Slovakia (ECB), contributed to the sharp rises in lending rates. On a year-on-year basis, the largest increase –

[7] The euro area bank lending survey https://www.ecb.europa.eu/stats/ecb_surveys/bank_lending_survey/html/ecb.blssurvey2021q2~b868c78ada.en.html

Chart 15: International comparison of interest rate spreads on small-amount corporate loans extended in domestic currency



Note: Variable-rate loans below EUR 1 million, with maturities of up to 1-year; therefore, FGS loans with the maximum 2.5 percentage point spread are not included. Source: MNB, ECB, national central banks

206 basis points – was observed in the Czech Republic, followed by Hungary with 193 basis points, while in Romania and Slovakia, corporate lending rates have so far remained broadly unchanged compare to the previous year. In an annual comparison, spreads show a heterogeneous picture: while in Czechia they fell by 50 basis points, in Hungary they rose by 18 basis points (Chart 15).

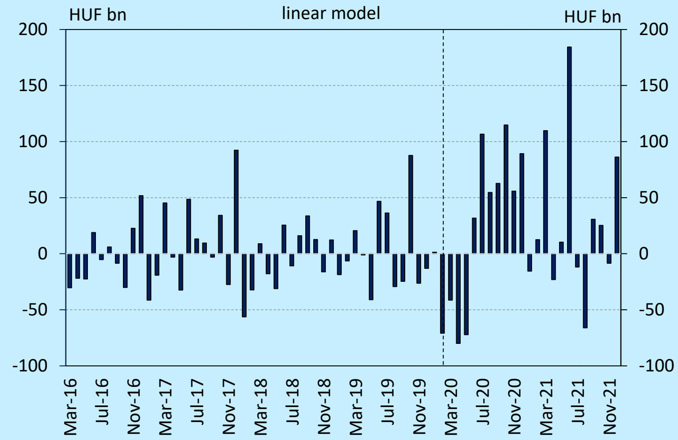
BOX 1: COMPOSITION EFFECT IN CORPORATE LENDING – THE IMPACT OF FGS GO!

As regards the size of the global amount, FGS Go! was the largest loan programme during the economic uncertainty caused by the coronavirus, accounting for more than 40 per cent of new contracts in the overall corporate credit market over its lifetime of roughly one and a half years. The programme has thus significantly shaped the supply and demand side of the corporate credit market, but the effects of these loans are felt not only during the programme but also afterwards.

Namely, the preferential interest rate loans granted under FGS Go! had a significant impact on the structure of new corporate loan contracts. The preferential interest rates available under the scheme may have encouraged borrowers to bring forward their borrowing, while the long-term loans disbursed provided participating companies with 'stronger' funding via slower amortisation and lower refinancing requirements. This effect may curb the volume of new corporate loan contracts even after the programme[8], i.e. following the pick-up in new corporate lending observed during the programme, the programme may lead to a decline in new corporate loan contracts, partly for economic and partly for technical reasons.

By interpolating a linear trend to the monthly volume of new contracts in the 4 years prior to the outbreak of the coronavirus and then extending it, it is clear that the volume of new corporate loan contracts (after the outbreak of the coronavirus) in the SME segment is, on average, higher than before the Covid-19 outbreak. The volume of new contracts was lower in the 2-3 months immediately after the outbreak of the pandemic, but in parallel with the rise in government and central bank credit schemes, trend growth can be observed from the summer of 2020. The volume of SME corporate loan contracts accumulated since March 2020 was HUF 641 billion higher until December than would be implied by the historical trend. This suggests that small and medium-sized enterprises have been able to enter the market in the last two years with partially brought forward demand, taking advantage of the preferential government and central bank lending programmes, while the subsidised lending schemes, together with increased guarantees, may have generated additional credit demand. Thus, the termination of the programme may reduce the number of new contracts due to this effect, in addition to rising interest rates and a decrease in preferential lending programmes, i.e. the cumulative output figure may approach to the pre-crisis trend.

Deviation of monthly SME contracts from those estimated by the linear model



Source: MNB

Based on data from previous phases of the FGS programme, we also examined whether companies tend to borrow lower volume and smaller amounts of other working capital loans in the 1 and 2 years after taking out an FGS working capital loan. To measure the impact of the nature of the FGS loan, we compared two different periods: 1) the period 2013-2015, when the FGS working capital facility was available to companies (FGS1, FGS2, FGS+), and 2) the period January 2016 to March 2020, i.e. the period without the possibility to borrow FGS working capital loans. Only those companies were included in the analysis that have taken out at least one working capital loan under FGS in the first period and at least one normal market-based working capital loan in the second period. By comparing the two periods after the borrowing, we can approximate the effect of the nature of the FGS loan on further borrowing, since on the

[8] To illustrate this effect with a simple example: if the average maturity of loan contracts concluded by companies doubles, loan contracts of half the current volume are needed to maintain the same level of financing. This would lead to a distinct fall in new contracts in the statistics, while the funding level of companies remains unchanged.

one hand the groups in the two periods contain exactly the same companies (thus somewhat controlling for the effect of company-specific characteristics[9]), and on the other hand in the case of the control (second) period it was not possible to take out FGS loans, which could have distorted various corporate decisions (loan refinancing and other).

Based on our results, the average number of FGS working capital loans taken out is 1.2 (only for those who actually took out a loan within a year: 2.5), while in the case of market-based working capital loans, companies borrowed 1.6 loans (borrowers: 3.7) in one year. As regards the average loan volumes, we obtained similar results: companies borrowed working capital funds in the amount of HUF 45 million (borrowers: HUF 96 million) on average in the first year after the FGS working capital loan, and HUF 57 million (borrowers: HUF 131 million) on average in the period after the market-based working capital loan taken out in later periods. The results remain valid also over a two-year time horizon, i.e. companies essentially took working capital loans less frequently and in smaller amounts after the FGS working capital loans than later, after taking out market-based loans. However, in addition to the nature of the FGS programme, two other factors may (partly) explain this difference, which we could not control within the scope of this analysis: 1) *'survival bias':* among the companies that borrowed FGS working capital loans between 2013 and 2015, a larger proportion of the more successful ones were more likely to operate also after 2016, some of which may have become larger companies, which may be associated with larger loan amounts and more frequent borrowing, 2) the economic situation was less favourable between 2013 and 2015 than after 2016, and thus the real economic cycle may also have had a positive impact on corporations' willingness to borrow.

Volume and number of market-based loan borrowing within 1 and 2 years after taking out FGS and market-based working capital loans

	FGS working capital loan period (2013-2015)		Market-based working capital loan period (2016-2020)	
	pieces	HUF mn	pieces	HUF mn
New borrowing within 1 year				
In proportion of all companies involved	1.2	45	1.6	56.8
In proportion of working capital loan re-borrowers	2.5	96	3.7	130.8
New borrowing within 2 years				
In proportion of all companies involved	2.5	94.2	3.7	124.3
In proportion of working capital loan re-borrowers	4	149.1	6.5	219

Source: MNB

The differences in subsequent borrowing behaviour may be explained by the fact that FGS working capital loans were typically disbursed in a different structure than the market-based working capital loans, which is most evident in the amortisation and maturity of the loans. The former are amortised more slowly on average, which may be partly due to the fact that credit institutions cooperated to an even larger degree in maximising the maturity available under FGS for non-standard individual transactions of usually higher amount and also reduced their amortisation expectations for these. Due to this, the average maturity of the identified FGS working capital loans was 2.75 years (median: 2.92 years), while it was 2.41 years (median: 1.21 years) in the case of the normal market-based working capital loans of later periods.

These results all suggest that the volume of new contracts is likely to be negatively affected by the termination of FGS Go! in September 2021. In addition to supporting the SME credit market in line with counter-cyclical economic policy, the loans extended in the amount HUF 3,000 billion under the scheme over its nearly one and a half year duration may have induced forward demand, which could curb corporate credit demand in the near future. On the other hand, the conclusion of new contracts is also negatively affected by the fact that, setting out from the past FGS cycles, after taking out FGS working capital loans companies tend to borrow such funds repeatedly less frequently and in lower amounts, and FGS loans typically have longer maturity and slower amortisation than their market peers. For this reason, the preferential interest rate loans granted under FGS Go! can support the operation of SMEs for many years to come.

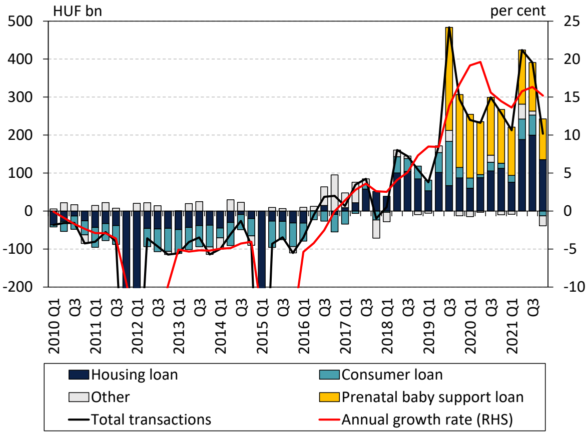
[9] However, we cannot control for corporate impacts varying in time due to the different time window.

3. TRENDS IN LENDING IN THE HOUSEHOLD SEGMENT

The credit institution sector's household loans outstanding rose by HUF 204 billion as a result of disbursements and repayments in the fourth quarter of 2021, reaching an annual growth rate of 15 per cent. The dynamic growth in loans outstanding was primarily attributable to the increase in housing loans and prenatal baby support loans, with the latter already accounting for 17 per cent of household loans outstanding in December. Quarterly lending to households returned to pre-pandemic levels, but the composition of contracted loans changed significantly, with the ratio of mortgage loans increasing and unsecured consumer loans decreasing within new contracts. The ratio of loans for the purchase and construction of new homes rose to 27 per cent within new housing loans, which is partly attributable to the FGS Green Home Programme (GHP), launched in October. In parallel with the increase in the volume of housing loans, the number of housing loan contracts continued to rise year-on-year, and the average loan amount and maturity also increased. Half of the loan volume contracted under FGS GHP relates to properties under construction or already completed in the Central Hungary region, where the average GHP loan amount is HUF 34.3 million. The volume of the Home Purchase Subsidy for Families increased year-on-year for purchases of both used and new homes; the rural HPS still accounts for half of the disbursed subsidies, with a quarterly volume of HUF 15 billion. The average APR-based spread on new housing loan contracts fell to a historic low in the fourth quarter, as banks have not yet fully passed on rising yields into their lending rates, but looking ahead they indicated further repricing. The average interest rate on personal loans has not risen significantly since the start of the interest rate hike cycle, which may have been partly due to the competition-stimulating role of the Certified Consumer-friendly Personal Loans.

Based on the responses to the Lending Survey, banks reported a pick-up in demand for housing loans in the fourth quarter of 2021, even under unchanged credit conditions, and one quarter of the institutions expects continued growth in demand both for housing and consumer loans in the first half of 2022. According to the Bank Sentiment Survey, the banking sector perceived a further increase in competition in the retail segment, with around 40 per cent of the respondent institutions increasing their exposure both in the consumer and mortgage loan markets in the first half of 2022.

Chart 16: Quarterly transactions of the household loan portfolio by loan purpose

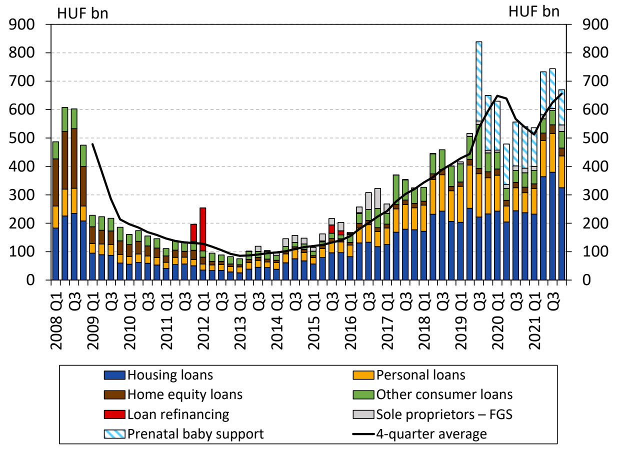


Note: Seasonally unadjusted net change in outstanding amounts, with rolling exchange rate adjustment. The transactions reflect the effect of the settlement. Source: MNB

Domestic household lending

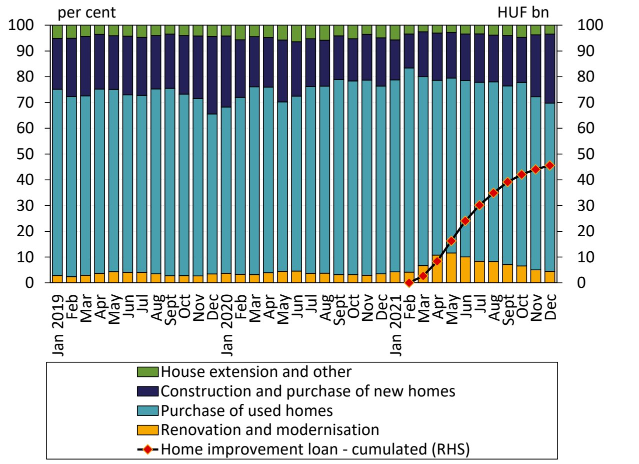
In 2021, household loans outstanding increased by 15 per cent. In the fourth quarter of 2021, the credit institution sector's loans outstanding to households grew by HUF 204 billion due to transactions, thus reaching a stock of HUF 9,327 billion in December. In 2021, loans outstanding grew by HUF 1,231 billion, with an annual growth rate of 15 per cent (Chart 16). According to our estimates, annual dynamics would have been robust, i.e. 10 per cent, even after eliminating the repayment-reducing effect of the moratorium on payments. Since November, the moratorium supports the growth in outstanding lending only moderately, as only 6 per cent of outstanding household loans remained in the programme. Housing loan transactions accounted for two-thirds of the quarterly growth in transactions, i.e. HUF 135 billion, while repayments exceeded

Chart 17: New household loans in the credit institution sector



Note: Loan refinancing indicates only refinancing related to the early repayment scheme and the FX conversion. Other consumer loans include vehicle, hire purchase and other loans, excluding prenatal baby support loans. Source: MNB

Chart 18: Distribution of new housing loans by loan purpose



Source: MNB

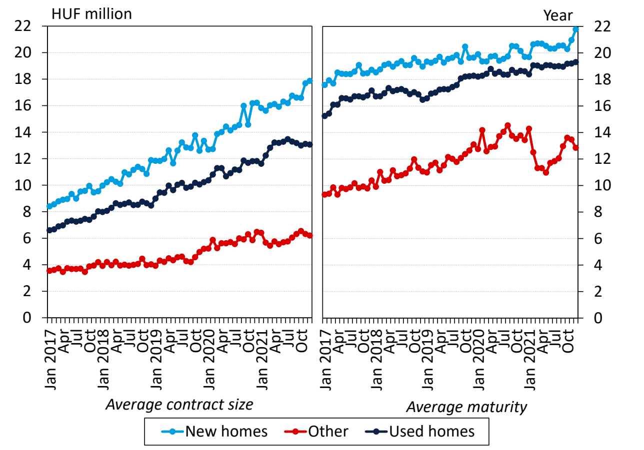
disbursements in the case of consumer and other loans excluding prenatal baby support loans. Following a quarterly increase of HUF 107 billion, outstanding prenatal baby support loans amounted to HUF 1,569 billion, already accounting for 17 per cent of household loans outstanding.

Disbursement of household loans returned to pre-pandemic levels. Credit institutions concluded loan contracts in the amount of HUF 647 billion with households in the fourth quarter of 2021,[10] which, although with a different composition in terms of product types, once again reached the pre-pandemic level and exceeded the year-on-year figure by 23 per cent (Chart 17). Within unsecured consumer loans, the quarterly disbursement of personal loans and prenatal baby support loans fell short of the pre-pandemic volumes by 11 per cent and 36 per cent, respectively. The decline in prenatal baby support loans (HUF 123 billion) was partly attributable to the high base caused by the surge in this product following its launch in July 2019. However, the declining utilisation of the product is also indicated by the fact that the number of contracts concluded fell short of the year-on-year disbursement by 16 per cent. New housing loan disbursements in the amount of HUF 325 billion, accounting for half of the quarterly disbursements, drove growth of 39 per cent compared to the fourth quarter of 2019, with a major contribution by the new housing subsidies available from 2021. The extended subsidy scheme also had a stimulating effect on the disbursement of home equity loans (HUF 27 billion), generating year-on-year growth of 44 per cent.

Following the launch of the FGS Green Home Programme, the proportion of housing loans taken out for the purchase or construction of new homes increased during the quarter. Housing loan applications were still dominated by purchases of used homes, accounting for two-thirds of housing loan disbursements (Chart 18). While the proportion of loans for home improvement and modernisation purposes in connection with home improvement subsidies increased in early 2021, the FGS Green Home Programme, launched in October, boosted demand for

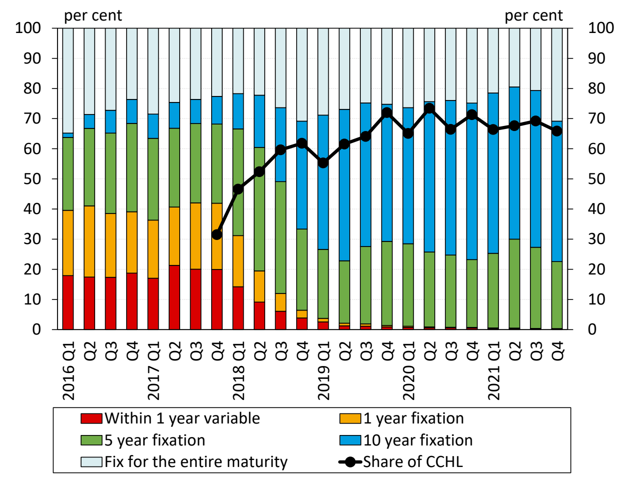
[10] Without loans extended to independent entrepreneurs under the FGS.

Chart 19: Average contract size and maturity of new housing loans



Note: Maturities are averages weighted by contract amount. Source: MNB

Chart 20: Distribution of new housing loan volume by interest rate fixation, and share of Certified Consumer-friendly Housing Loan products



Note: Share of CCHL products compared to new issues with at least 3 years of interest rate fixation (at least 5 years since Q4 2018), excluding disbursements by building societies. Source: MNB

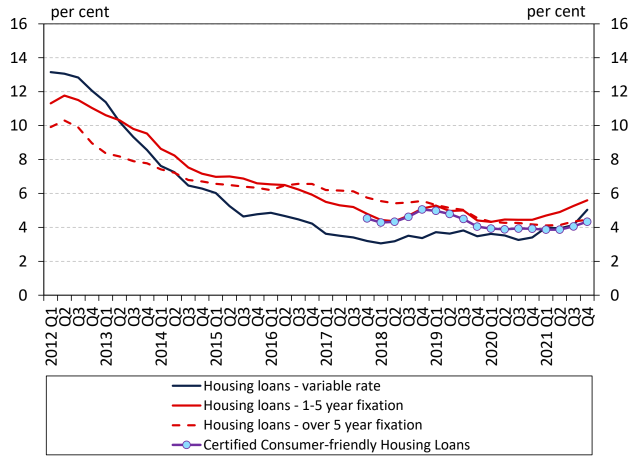
loans for the purchase and construction of new homes in the fourth quarter. In the final quarter of 2021, loans drawn down for this purpose accounted for 27 per cent of new housing loan contracts, marking an increase of 11 percentage points compared to the beginning of the year. Banks concluded contracts for subsidised mortgage loans, introduced in February, for the pre-financing of home improvement subsidies in a total amount of HUF 46 billion until December 2021, of which contracts for HUF 6.4 billion were concluded in the fourth quarter.

In parallel with the rise in house prices, the average loan amount and maturity of housing loans continued to increase. The number of loan contracts concluded in the fourth quarter of 2021 increased for all housing purposes year-on-year. The largest increase, 61 per cent, was achieved by loans for home improvement, which also serve as pre-financing loans for the home improvement subsidy available from 2021. The continuing appreciation of house prices in 2021 is also reflected in the average loan amounts and, in parallel with that, in the average maturities:[11] in December 2021 the loan amounts applied for exceeded those before the pandemic by HUF 3 million (HUF 13 million) for the purchase of used homes and by HUF 5 million (HUF 18 million) for the purchase of new homes, and simultaneously with this the average maturity weighted by contract amount also rose to 19 and 22 years, respectively (Chart 19). The more dynamic increase in the fourth quarter was also attributable to FGS GHP, where the maximum loan amount that may be requested with a maturity of 25 years, at the most, exceeds that of market-based loans (Box 2).

The proportion of housing loans with a long interest period increased. In the fourth quarter of 2021, 78 per cent of housing loan contracts concluded featured interest rate fixation of at least 10 years or until maturity, and a substantial increase was seen in the proportion of the latter (Chart 20). The penetration of loans with interest rates fixed until maturity was also attributable to FGS GHP, launched in October, which is available with interest periods fixed until maturity. Certified Consumer-friendly Housing Loans, available

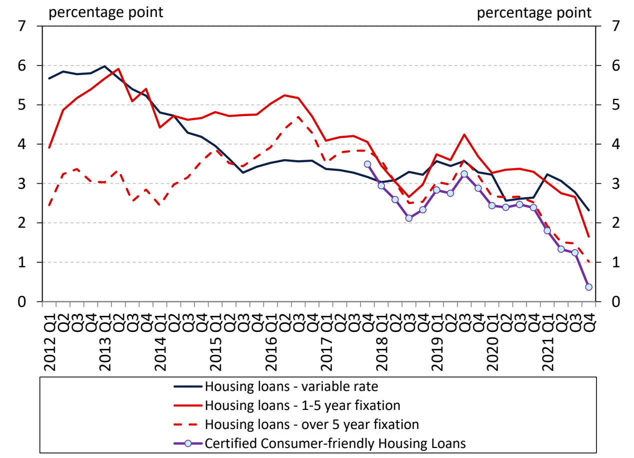
[11] Averages for both loan amount and maturity are per contract and not per borrowers.

Chart 21: Annual percentage rate of charge on new housing loans



Note: Volume-weighed APR. Source: MNB

Chart 22: APR-based spreads on new housing loans



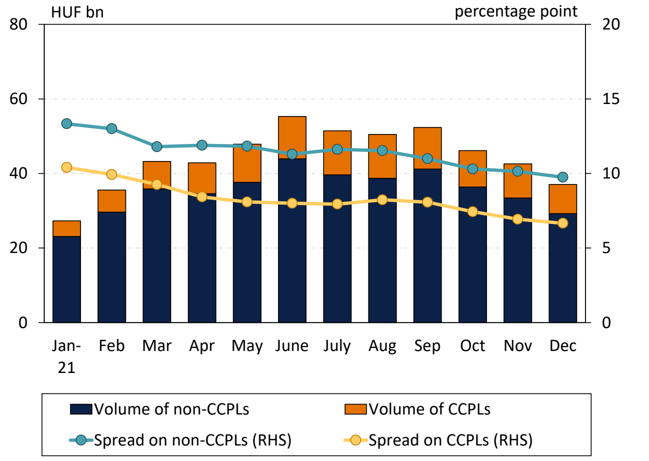
Note: In the case of variable-rate housing loans or ones with up to 1-year rate fixation the 3-month BUBOR, while in the case of housing loans fixed for a period longer than one year, the APR-based smoothed spread over the corresponding IRS. For FGS GHP, calculated at a funding cost of 0 per cent. Source: MNB

only with longer, i.e. at least 5-year interest period, still contribute significantly to the decline in interest rate risk: the quarterly disbursement of certified products in the amount of HUF 195 billion in the quarter accounted for two-thirds of housing loans with similar interest period.

The rise in the interest rate environment has not yet been fully passed through to lending rates, causing the spread on housing loans to drop to a historic low. Within the housing loan contracts concluded in the fourth quarter of 2021, the average APR rose by 0.3 percentage point to 5.6 per cent for loans with interest rate fixation periods of 1-5 years and by 0.1 percentage point to 4.5 per cent for loans with interest rate fixation periods of more than 5 years during the quarter (Chart 21). By contrast, the APR-based smoothed spreads on housing loans fell significantly in all interest rate fixation categories. During the quarter, the average interest rate spread fell by 1 percentage point to 1.7 percentage points on housing loans with interest rate fixation with 1 to 5 years and by 0.5 percentage point to 1 percentage point on housing loans with interest rate fixation longer than 5 years (Chart 22). Banks offer Certified Consumer-friendly Housing Loans at the lowest spread of 0.4 percentage point. The declining spreads indicate that banks' funding costs, which are rising in parallel with the change in the interest rate environment, have not yet been fully passed through into lending rates. Weak repricing was partly due to the moderate proportion of variable rate loans in new loans and the slower adjustment in the interest rate conditions of housing loan schemes with interest rate fixed for longer term.[12] In 2021, the weighted average of the long-term yields and the funding costs influencing the pricing of housing loans rose by 2 percentage points, while the average APR increased by merely 0.5 percentage point to 4.7 per cent, and thus the average spread on housing loans fell from 2.7 percentage points to 1.2 percentage points in December 2021.

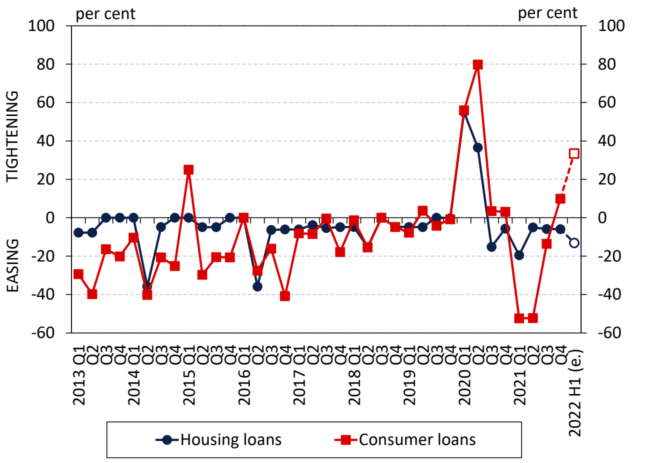
[12] For the details on the repricing practices for newly disbursed housing loans, see Box 5 of the December 2021 Financial Stability Report: https://www.mnb.hu/letoltes/penzugyi-stabilitasi-jelentes-2021-december.pdf

Chart 23: Changes in volume and APR-based spread on new personal loans at institutions offering CCPLs



Note: Excluding employer loans. The APR-based spread was calculated as the difference between the APR and the BIRS yields corresponding to the maturity of loans. Average volume-weighed APR-based spread. Source: MNB

Chart 24: Changes in credit conditions in the household segment

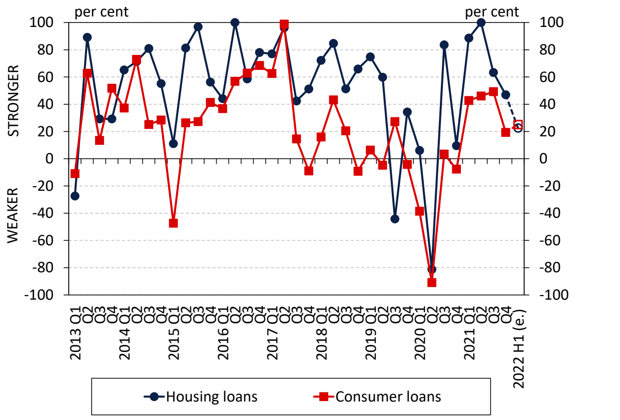


Note: Net ratio is the difference between tightening and easing banks weighted by market share. Source: MNB, based on banks' responses

Certified Consumer-friendly Personal Loans (CCPL) account for a stable proportion in new personal loans. In the fourth quarter of 2021, CCPL products were disbursed in the amount of HUF 27 billion, which means that one in five personal loans had a consumer-friendly rating. Compared to the third quarter, the volume of new CCPL contracts was HUF 8 billion lower, but the decline also affected non-certified personal loans. Since the launch of the product in January 2021, CCPLs were disbursed in the total amount of HUF 109 billion. Compared to non-certified products, CCPL products were disbursed with higher amounts for longer maturity at lower interest rates in the fourth quarter as well. The average loan amount of HUF 3.6 million exceeded that of non-certified products by HUF 1.6 million in December. On average, the maturity of CCPL products is half a year longer, while their average APR is 1.7 percentage points lower than those of non-certified products. The volume-weighted APR-based average spread on CCPL products fell to 6.7 percentage points in December, which is 3.1 percentage points lower compared to non-certified personal loans at institutions offering CCPLs (Chart 23).

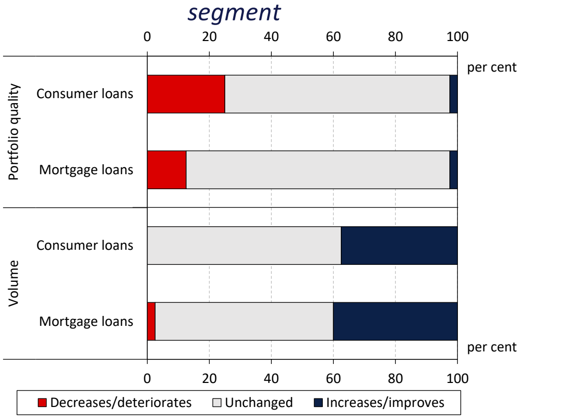
Banks did not change their housing loan standards, but tightened the conditions of consumer loans in the fourth quarter. According to responses in the Lending Survey, in the fourth quarter of 2021, respondent institutions did not change their housing loan conditions overall, but 35 per cent of banks, in net terms, increased their disbursement fees, while 58 per cent indicated a reduction in spreads, which may be due to the delayed pass-through of rising funding costs to bank interest rates. Looking ahead to the next six months, 13 per cent, in net terms, plan to ease housing loan standards, but one third anticipate an increase in the spread between the interest rate and funding costs (Chart 24). 10 per cent of respondent banks tightened conditions on consumer loans during the quarter, which mostly affected personal loans. However, 23 per cent and 58 per cent eased conditions, by reducing spreads on home equity loans and car loans, respectively, during the quarter. By the first half of 2022, one third of banks anticipate tightening in the form of increasing spreads, mainly on home equity loans.

Chart 25: Credit demand in the household lending segment



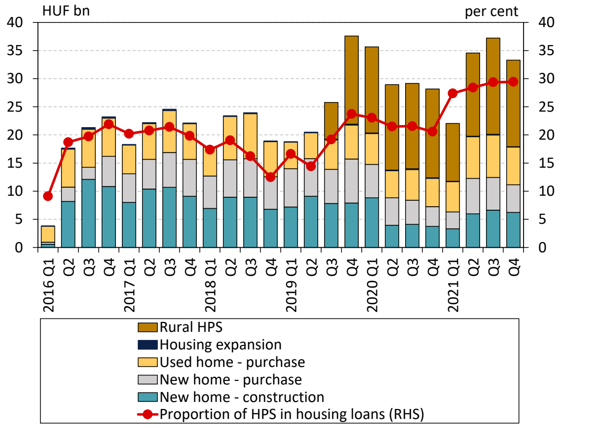
Note: The net ratio of banks indicating stronger and weaker demand, weighted by the market share. Source: MNB, based on banks' responses

Chart 26: Banks' expectations related to changes in the volume of loans and portfolio quality in the household segment



Note: Unweighted distribution of credit institutions. Source: MNB, based on banks' responses

Chart 27: Volume of HPS contracts by purpose



Note: The rural HPS can be used for the purchase, as well as modernisation and extension of homes. Source: MNB, Ministry of Finance

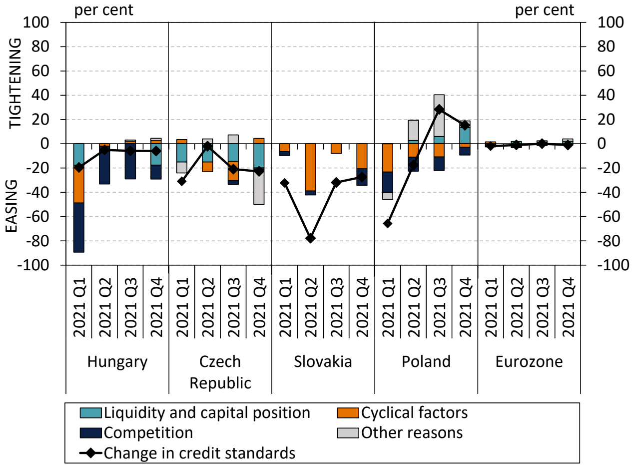
Half of the banks reported a pick-up in demand in the housing loan market. In the fourth quarter of 2021, nearly half of the institutions participating in the Lending Survey reported a pick-up in demand for housing loans, which may have been also attributable to the launch of the Green Home Programme. In net terms, 23 per cent of the banks expect credit demand to continue to accelerate in the first half of 2022, supported by the growing popularity of GHP and demand brought forward due to rising interest rates on market-based loans (Chart 25). In net terms, 19 per cent of the banks experienced a pick-up in demand for consumer loans during the quarter, and 25 per cent expect a further recovery in the first half of 2022. An additional pick-up in the case of personal and car loans, respectively, is anticipated by 32 and 58 per cent of the banks.

In the household segments, roughly 40 per cent of the banks wish to increase their exposure in the first half of 2022. According to the Bank Sentiment Survey, the banking sector perceived a further increase in competition in the household segment. Due to this, 38 per cent and 40 per cent of respondent institutions plan to increase their consumer loan portfolio and mortgage loan portfolio, respectively, in the first half of 2022 (Chart 26). In addition, one institution has already indicated that it wants to reduce its mortgage loan portfolio. In mortgage lending, the proportion of banks expecting further deterioration in portfolio quality declined: one quarter of the banks expect a deterioration in consumer loans, but only 13 per cent expect a deterioration in the secured portfolio.

Half of the quarterly HPS were linked to rural HPS. A major part of the new home subsidies introduced from January 2021[13] were connected to the Home Purchase Subsidy Scheme for Families, which was also reflected in the volume of HPS applications. During the fourth quarter, banks concluded approximately 7,700 subsidy contracts with families under the HPS, amounting to roughly HUF 18 billion. Of this amount, 62 per cent was disbursed for the construction or purchase of new homes, while nearly HUF 7 billion was disbursed for the purchase of used homes (Chart

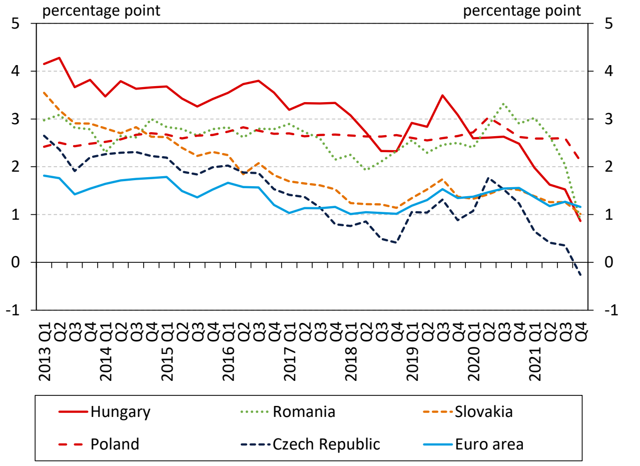
[13] Reducing VAT on new home to 5 per cent, VAT and duty exemption of new properties purchased under HPS, multi-generation HPS, Home improvement subsidy, Subsidised housing loan for home improvement.

Chart 28: Changes and factors contributing to changes in housing loan conditions in the V4 countries



Note: Category values are derived from the arithmetic average of the factors thematically classified therein. Positive values indicate tightening conditions, while negative ones indicate easing. Source: MNB, ECB, national central banks

Chart 29: Interest rate spreads in an international comparison for housing loans provided in domestic currency



Note: In the case of variable-rate housing loans or ones with up to 1-year rate fixation the 3-month interbank rate, while in the case of housing loans fixed for a period longer than one year, the three-month smoothed spread over the corresponding IRS. For Hungary, also taking into account the funding cost of 0 per cent of FGS GHP. Source: MNB, ECB, EMF, Datastream, national central banks

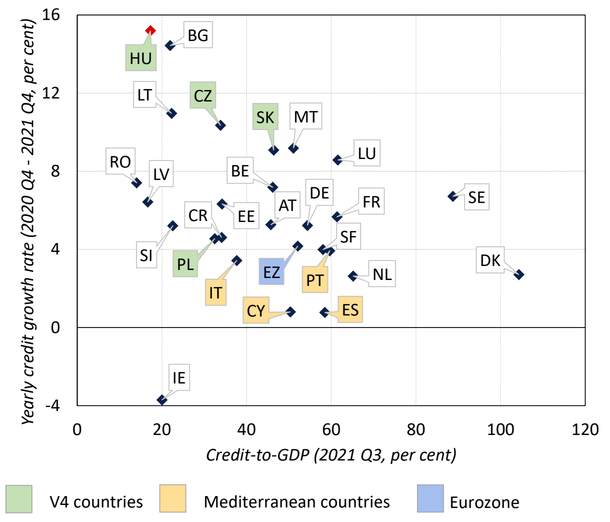
27). Of the housing loans disbursed in the fourth quarter, 29 per cent, or around HUF 95 billion, was linked to the Home Purchase Subsidy Scheme for Families, also including rural HPS, almost half of which were HPS-related market-based loans. There is continued strong demand for rural HPS, which has been available since July 2019, accounting for half of the quarterly HPS. During the quarter, almost 3,000 contracts were concluded under the scheme in the amount of roughly HUF 15 billion, 80 per cent of which were used for the purchase and modernisation of property in the preferred small villages.

International developments in household lending

Retail credit conditions varied across countries in the region. While overall housing loan standards in the euro area and Hungary remained unchanged in the fourth quarter of 2021, banks in Slovakia and the Czech Republic – among the other Visegrád countries – reported an easing of housing loan conditions (Chart 28). Czech banks cited the sector’s favourable liquidity and capital position, while Slovak institutions mentioned increased competition and a favourable economic outlook as factors for easing. Poland was the only country in the region where a net 15 per cent of banks tightened their lending conditions over the period, with banks already tightening conditions of accessing credit in the third quarter.

Spreads on housing loans fell in an annual comparison in all countries of the region. After an annual decline of 1.6 percentage points, the interest rate spread on domestic housing loans narrowed to 0.87 percentage point by the end of 2021, as a result of which Hungary registered the second lowest level after the Czech Republic and the same as in Romania. The significant decline is due to the fact that – despite the rise in the IRS rates underlying the calculation of spreads, which has lasted since the start of the year – interest rates on housing loans increased only moderately. Romania and the Czech Republic also registered significant annual declines of 2 and 1.5 percentage points, respectively, while in Slovakia and Poland spreads on housing loans fell short of the levels registered in the fourth quarter of 2020 by 0.5 percentage point (Chart 29). Based on past experience, the pass-through of longer yields will

Chart 30: Annual growth rate of household loans and the credit-to-GDP ratio in an international competition



Source: ECB, MNB

be reflected in lending rates after some transition, and thus we expect spreads to rise in 2022.

There is still room for loan penetration in Hungary. Domestic annual household credit growth reached 15 per cent at the end of 2021, remaining exceptionally high by international standards (Chart 30) and exceeding the growth rates of both the countries in the region and the euro area. This was partly attributable to the effect of the moratorium on loan instalments, which was unprecedented in a European comparison in terms of its duration and range of eligible borrowers; however, the outflow of credit is robust even after adjustment for this effect. The household loan/GDP ratio rose by 1.7 percentage points in one year and amounted to 17.3 per cent at the end of the third quarter of 2021. This means Hungary has the third lowest indicator after Romania and Latvia, and thus on overall there is still significant room to increase domestic credit penetration in a sound structure. The average outstanding household debt-to-GDP ratio of the V3 countries and the euro area amounted to 34 per cent and 52 per cent, respectively, in the same period.

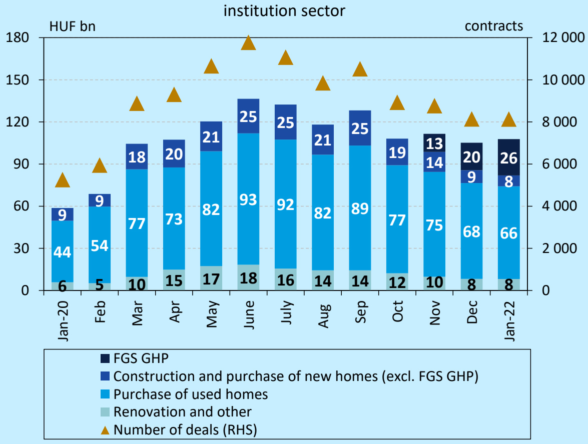
BOX 2: EXPERIENCE WITH THE FGS GREEN HOME PROGRAMME TO DATE

Following the decision of the National Assembly in May 2021, the promotion of environmental sustainability was added to MNB's statutory objectives. The vision of the central bank, published in July 2021, outlined in its strategy related to the set of green instruments. Hungary's sustainable convergence will be realised through the economy's green transition, which is conditional on the development of a financial system in Hungary, by the end of the decade at the latest, which takes into consideration and applies environmental sustainability criteria. The housing loan market is a good starting point to support the integration of green criteria, in view of the fact that the energy efficiency of the stock of dwellings – which accounts for one third of domestic primary energy consumption – is low, and thus there is major room for modernisation. The FGS Green Home Programme (GHP), launched in October 2021 as part of the Funding for Growth Scheme, fosters the creation of green housing loan market and the penetration of environmental sustainability considerations in the domestic housing market.

The GHP helps to buy and build energy-efficient new homes by providing them with favourable interest rate and loans with fixed and predictable interest rates until the end of maturity, thereby indirectly encouraging the construction sector to build energy-efficient homes. As in the previous phases of the FGS – supporting the SME sector's access to funding – the central bank provides refinancing funds to credit institutions at 0 per cent interest, which they can lend on to retail customers at a maximum interest rate of 2.5 per cent. Accordingly, the loan is available only to natural persons for the purchase or construction of energy-efficient new flats and family houses (with an energy-efficiency rating of at least BB and a maximum primary energy consumption of 90 kWh/m^2/year) for their own use. The maximum loan amount is HUF 70 million and the maximum maturity is 25 years.

The GHP, for which there has been significant interest from retail customers since its launch, may have also contributed to the higher volume of new housing loans since November 2021. While in October, no contracts were concluded yet under the GHP due to the protracted product development process at some banks and the time needed for loan assessment, in November 46 per cent of the loans disbursed for the purchase or construction of new homes, in December about two-thirds of the volume, in January 2022 almost 80 per cent of the volume, totalling HUF 59 billion, were already linked to the programme. Another factor that may have contributed to the decline in loans for used homes from October was that the lower instalment of the Green Home Loan may have encouraged households to buy new, energy-efficient homes instead of used homes, even if the loan amount was higher than originally planned. The average loan amount under the GHP is higher, the maturity is longer, and the average APR is significantly lower than those of market-based loans.

New housing loans to households in the credit institution sector

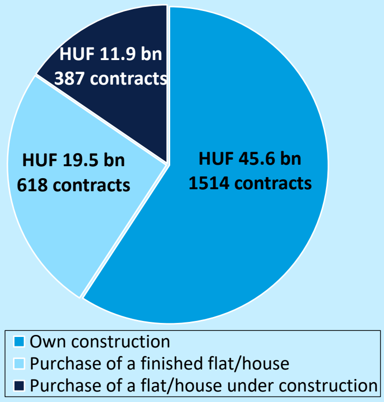


Source: MNB

Until 25 February 2022, credit institutions participating in the programme reported 2,519 transactions in the amount of HUF 77 billion to the MNB, i.e. around 40 per cent of the overall amount has already been used up. In nearly two-thirds of the contracts, the borrowers also benefited from state interest subsidies ('green HPS'). The outstanding – i.e. already drawn but not repaid – amount on 28 February, 2022 is HUF 22 billion, around 30 per cent of the contracted amount, as most of the contracts are related to pre-construction/under-construction properties, so they involve (also) further drawdowns.

Around 60 per cent of the contracted volume, a total of HUF 45.6 billion, was borrowed for own construction. Almost 80 per cent of the volume for this loan purpose was used to finance the construction of family homes, two-thirds of which are in a rural region, other than Central Hungary. Banks granted loans in the amount of nearly HUF 12 billion for the purchase of properties under construction, of which nearly 65 per cent was for flats. Disbursement in the amount of around HUF 20 billion related to the purchase of completed property, 80 per cent of which was used by borrowers for buying a flat. For the latter two loan purposes, on average 80 per cent of loans by volume flowed to the Central Hungary region.

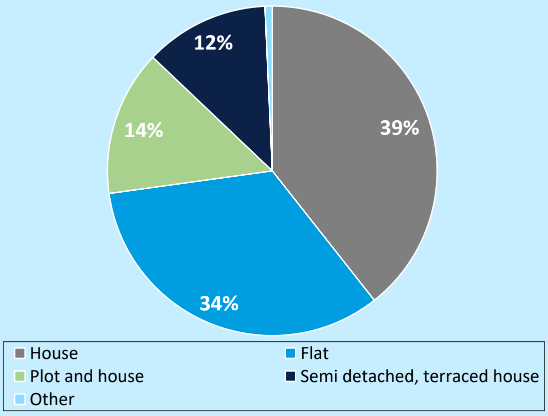
Distribution of contracts concluded under the FGS GHP by loan purposes



Source: MNB

Of the properties purchased or built with Green Home Loans, 53 per cent were family homes, nearly three-quarters of which were built on an existing lot. 34 per cent of transactions related to flats, with an average market value amounting to HUF 57 million. Due to the favourable conditions and the housing purpose, the average floor area of the flats purchased under the GHP is 85 square metres, while the average size of the houses is 127 square metres. The purchase of semi-detached house/terraced house accounted for 12 per cent of the transactions.

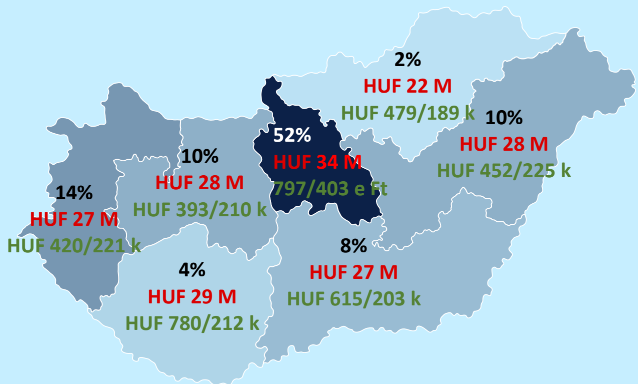
Distribution of contracts concluded under the FGS GHP by property types



Source: MNB

Half of the contracted amount relates to properties under construction or already built in the Central Hungary region, and in terms of number of contracts 46 per cent of the loans were used in this region. The average loan amount here is HUF 34.3 million, which is higher than the average loan amount HUF 30.6 million of the entire portfolio. In terms of maturity, the volume-weighted average maturity of loans in Central Hungary only slightly exceeds the 20.8-year average of the entire GHP portfolio.

Regional distribution of contracts concluded under the FGS GHP based on volume



Note: Regional distribution of the volume is shown by black, the average loan amount in the given region is shown by red, and the average price per square meter per apartment / house type resulting from the quotient of the sale value and the useful floor area given by the bank is shown by green. Source: MNB

4. APPENDIX: NOTES ON THE METHODOLOGY

The analysis is based on statistical data and the findings of the Lending Survey.

1. *Credit aggregate and lending rate data*

One of the statutory tasks of the Magyar Nemzeti Bank is to publish statistical data regarding the functioning of the system of credit institutions and the financial position of the country. The statistics compiled, the press releases presenting the main data and the methodological descriptions of preparing the statistics are available on the MNB's website at: http://www.mnb.hu/statisztika

2. *Lending Survey*

The Lending Survey facilitates the analysis of how major Hungarian banks perceive and evaluate market developments and how they develop their respective strategies, in particular their lending policies. Nine banks responded to questions related to housing loans, while eleven banks answered questions on consumer loans. Based on data from the end of 2021 Q4, the surveyed institutions accounted for 86 per cent of the banking sector in the case of outstanding housing loans and 93 per cent in the case of outstanding consumer loans. The corporate questionnaire was completed by fifteen banks in total, which represent 95 per cent of the corporate loan market, and the market share of the fourteen banks responding to the questionnaire related to commercial real estate loans is also 95 per cent.

The survey consists of a standard questionnaire in each segment. The retrospective questions refer to 2021 Q4 (compared to 2021 Q3), whereas the forward-looking questions concern the next half year, covering 2022 H1 (relative to 2021 Q4). The current questionnaire was completed by senior loan officers between 1 and 18 January 2022.

To indicate changes, the survey uses the so-called net change indicator, expressed as a percentage of respondents. This indicator is calculated as follows: market share-weighted ratio of respondents projecting a change (tightening / increasing / strengthening) minus the market share-weighted ratio of respondents projecting a change in the opposite direction (easing / decreasing / weakening).

The detailed findings of the Lending Survey and the set of charts are available at: https://www.mnb.hu/en/financial-stability/publications/trends-in-lending

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